

ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Alpert Analyst: Marion Mann DeJong Bill Number: SB 31X
Related Bills: See Legislative History Telephone: 845-6979 Amended Date: 04/05/2001
Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Exclusion/Grants or Loans for Construction & Retrofitting Buildings to be More Efficient

SUMMARY

Among other things, this bill would create various programs to promote energy conservation and new energy systems, including tax-exempt grants for making buildings more energy efficient.

This analysis will address only the income exclusion of the tax-exempt grants.

SUMMARY OF AMENDMENTS

The April 5, 2001, amendments deleted the provisions of the bill as introduced and replaced them with the provisions referenced in the summary above.

PURPOSE OF THE BILL

According to the author's staff, one purpose of the bill is to encourage modification of buildings to be more energy efficient.

EFFECTIVE/OPERATIVE DATE

As an urgency statute, this bill would become effective immediately upon enactment. The income exclusion would apply to grants received during taxable years beginning on or after January 1, 2001.

POSITION

Pending.

Summary of Suggested Amendments

Amendments are needed to place the income exclusion in the Revenue and Taxation Code. See "Implementation Considerations" below.

Board Position:

<input type="checkbox"/> S	<input type="checkbox"/> NA	<input type="checkbox"/> NP
<input type="checkbox"/> SA	<input type="checkbox"/> O	<input type="checkbox"/> NAR
<input type="checkbox"/> N	<input type="checkbox"/> OUA	<input checked="" type="checkbox"/> PENDING

Department Director

Date

Alan Hunter for GHG

04/30/01

ANALYSIS

FEDERAL/STATE LAW

Both state and federal law exclude from gross income amounts received as energy conservation subsidies from a public utility. The subsidies must be for the purchase or installation of energy conservation measures designed either to reduce the consumption of electricity or natural gas or to improve the management of energy demand. In addition, the conservation measures must be installed on dwelling units.

THIS BILL

In the Public Resources Code, this bill would create the Energy Conservation Act of 2001. It would create various programs to promote energy conservation. The State Energy Resources Conservation and Development Commission would be charged with administering the energy conservation programs. Such programs would include grants to be used for making buildings more energy efficient.

The bill provides, under the Public Resources Code, that grants awarded to low income individuals under this act would be excluded from gross income for California income tax purposes.

IMPLEMENTATION CONSIDERATIONS

The gross income exclusion for grants received under this bill should be placed in the Revenue and Taxation Code to enable taxpayers and the department to look to one code for income tax provisions. Amendments 1, 2, 3, and 4 are provided to place the income exclusion in the Personal Income Tax Law.

LEGISLATIVE HISTORY

AB 29X (Kehoe 2001/2001) is identical to this bill. AB 29X was enrolled on April 5, 2001.

OTHER STATES' INFORMATION

Michigan uses an extensive system of grant and loan incentives to encourage investment in alternative energy and energy conservation. One program exempts the value of energy conservation devices from local property tax.

Massachusetts has an extensive program of tax exemptions and credits designed to encourage the consumption and production of energy efficient and alternative energy systems. These tax benefits include a sales tax exemption for individuals who purchase equipment directly related to solar, wind, or heat pump systems for a primary residence and a property tax exemption for the value of solar or wind energy systems.

New York has programs designed to effect both the consumption and the production of energy conservation systems and alternative energy equipment. Individuals are allowed a credit equal to 25% of certain solar electric generating expenditures.

The laws of these states were reviewed because their tax laws are similar to California's income tax laws.

FISCAL IMPACT

This bill would not significantly impact the department's costs.

ECONOMIC IMPACT

Since the proposed energy conservation grant or loan program does not exist presently, excluding the dollar amount of such grants from the gross income of qualified individuals would not impact state income tax revenues.

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FRANCHISE TAX BOARD'S
PROPOSED AMENDMENTS TO SB 31X
As Amended April 5, 2001

AMENDMENT 1

On page 47, strike out line 25 and insert:

SEC. 13. Section 17147.3 is added to the Revenue and Taxation Code to read:
17147.3. Gross income shall not include the amount of any grant awarded pursuant to Article 2 (commencing with Section 25433) of Chapter 5.3 of Division 15 of the Public Resources Code, relating to energy conservation, to a low-income individual, as defined therein.

SEC. 14. No reimbursement is required by this act pursuant

AMENDMENT 2

On page 48, line 3, strike out "Sec. 14." and insert:

SEC. 15.

AMENDMENT 3

On page 54, line 5, strike out "Sec. 14.5." and insert:

SEC. 16.

AMENDMENT 4

On page 55, line 8, strike out "Sec. 15." and insert:

SEC. 17.